

**IN THE MATTER OF THE APPLICATION REGARDING CONVERSION  
OF PREMIERA BLUE CROSS AND ITS AFFILIATES**

Washington State Insurance Commissioner's Docket # G02-45

**REPORT OF**

**Milliman USA**

**SUPPLEMENT TO**

**Premiera Comparative Premium  
Rate Analysis**

March 5, 2004

CONFIDENTIAL and PROPRIETARY  
NOT FOR PUBLIC DISCLOSURE

This document is a supplement to our report for Premera Blue Cross (“Premera”), titled ‘Premera Comparative Premium Rate Analysis’ and issued on November 10, 2003 (“Milliman Original Report for Washington”). This supplemental report reflects our review of Premera’s recent amendments to its Form A filing; responds to questions included in a February 13, 2004 letter from Premera’s attorneys to Milliman; and provides comments on an OIC Consultant’s supplemental report.

As with our original report, this supplemental report has been prepared solely for use by Premera management, the Washington Office of the Insurance Commissioner, the Alaska Director of Insurance and the Oregon Department of Insurance, and for use in any hearing regarding the Conversion. It should not be distributed in whole or part outside of this audience without Milliman’s advance written permission, and then only after redaction of any proprietary or confidential information.

### **Supplemental Report**

We were asked to address the following:

1. *Please advise as to whether any of the conclusions reached in the Milliman Original Report for Washington have been materially affected by the amendments to the Form A.*

Milliman USA Response: We have reviewed the Amendments to the Form A and determined that the findings and conclusions in the Milliman Original Report for Washington, which are described in Section 1, Section 5 and the Addendum of that report, do not materially change.

2. *In regard to the relevant Washington Economic Impact Assurances, please advise as to any conclusions regarding those Assurances, including but not necessarily limited to an assessment of the fact that, in Paragraph 4 of the Assurances, the termination date is two years after the Anniversary Date [of the Conversion].*

Milliman USA Response:

With regard to the Washington Economic Impact Assurances (“Assurances”), as set forth in Exhibit E-8 of the Amendments for Premera’s Form A and referenced as 1.1.4 (a), 1.1.4 (b), 1.1.4 (c) and 2.2:

- We find that the Assurances pertaining to premium rates are consistent with our understanding of Premera’s current business practices and business plan;
- We find that the Assurances pertaining to accessibility to healthcare coverages are reasonable and appropriate; and

- We find that the Assurances have no material impact on the findings and conclusions in the Milliman Original Report for Washington, which are described in Section 1, Section 5 and the Addendum of that report.

With regard to termination date for the Assurances as set forth in Paragraph 4 of Exhibit E-8:

- We find that a termination period of up to two years is reasonable for assurances of this nature; but
- Because changes in the marketplace are difficult to predict, it would be an unsound business practice for a company such as Premera to make such a rate-related assurance that extends beyond a 1-2 year period, particularly if competitors are not bound by similar assurances.

3. *With regard to the PWC Report Addendum referenced as “Economic Impact Analysis of the Proposed Conversion of Premera Blue Cross for the State of Washington” and dated February 27, 2004, we have the following comments:*

- Recommendation 1 (Page 8) – PWC recommends that “the Washington Economic Impact Assurances in Exhibit E-8 should be in place for a minimum period of three years.” As we stated above: “it would be an unsound business practice for a company such as Premera to make such a rate-related assurance that extends beyond a 1-2 year period, particularly if competitors are not bound by similar assurances.” In our opinion, a three year term, related to premium rating assurances, would not be a practical or prudent consideration for any health insurer. The two year term, provided as part of Premera’s Assurances, already has the effect of limiting rating actions and strategies for close to a three year period. Since most of Premera’s business renews on 12-month rating cycles, the impact of the two year term would carry over into the third year after conversion.
- Conclusion Regarding ASC Expense Charges (Page 7, Paragraph 2) – PWC concludes that “Among the ASC business line in particular, where Premera has targeted significant growth, the current expense allocation model suggests that administration charges would have to increase significantly to reach target margins without subsidization from other product lines.” We do not agree with this conclusion and have observed that Premera Management has acted prudently with regard to its pricing strategies for the ASC business line.